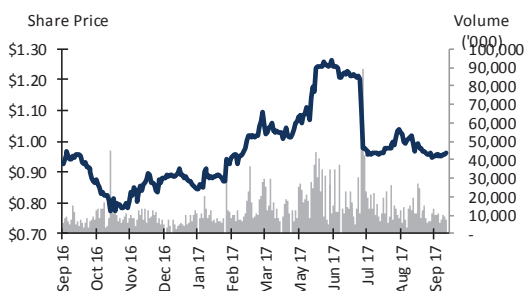




Fairfax Limited (FXJ) - Buy

Growth Potential in New Verticals, Carefully Managing Decline of Legacy Assets

Recommendation		BUY		
Previous		BUY		
Risk		High		
Price Target		\$1.27		
Previous		\$1.25		
Share Price (A\$)		0.97		
ASX Code		FXJ		
52 week low - high (A\$)		\$0.72-\$1.27		
Capital structure				
Shares on Issue (M)		2,313.5		
Market Cap (A\$M)		2,233		
Net Debt/(Cash) (A\$M)		118		
EV (A\$M)		2,351		
12mth Av Daily Volume ('000)		12,652		
Y/e June (A\$m)	2016a	2017a	2018e	2019e
EBITDA \$M	283.3	271.1	277.2	265.4
Op EBIT	220.4	235.2	240.9	228.2
NPAT \$M (Adj)	140.3	147.9	146.9	136.3
EPS (cents) - Adj	6.0	6.4	6.4	5.9
DPS (cents)	4.0	4.0	4.0	4.0
PER x	16.1	15.1	15.2	16.4
EV/EBITDA x	8.3	8.7	8.5	8.9
EV/EBIT x	10.7	10.0	9.8	10.3
Dividend yield (%)	4.1%	4.1%	4.1%	4.1%
Major Shareholders				
Ausbil				7.7%
Legg Mason				6.1%
Blackrock				5.0%
Share Price Graph				



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 The analyst owns no shares in FXJ.

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Event:

- We reiterate our positive view, ahead of planned Domain demerger.

Analysis:

- **With the planned listing of Domain by mid-to-late November (scheme documents released soon), along with a whirlwind global roadshow, we would expect FXJ share price to have a resurgence in coming months.** Key details of demerger include: FXJ retain 60% ownership & Domain will incur \$150m in net debt (FXJ is likely to be net cash) along with \$8-10m additional costs (including commercial agreements with FXJ).
- **We value total Domain operations at \$2.3 billion**, including premium plus listings (\$800m), property market leads opportunity (\$360m) & legacy operations (\$1.1bn). Listings still appear to be subdued, with most upside in revenues occurring from price increases (+20% 1st Jan), increasing depth penetration; and possibly improving national footprint. With limited listings growth and re-investment in products EBITDA margins are likely held-back short-term.
- **Digital ventures and untapped verticals. Likely hidden gems include:** motoring, SVOD, travel, food, health, baby, jobs, et al. Current focus is new cars (Drive/112 JV), Stan and events/conferences.
- **One day print advertising will stabilize:** We await the day there is a moderation in the decline of print advertising (to c.1-2%), but it does not appear to be on the immediate horizon (c.-10% today). Recently FXJ have reiterated that they will look to cut publishing costs. Metro Media is a focus today (c.\$30m) enabling earnings stability over the next 2-years. We understand FXJ are migrating to a new publishing platform during FY18e along with corresponding retirement of legacy platforms that are likely to assist in lowering costs. FXJ is open to the sale of its regional media operations (\$95m our valuation).
- **We would expect further cost outs in FXJ's NZ operations and an increased focus on monetizing stuff.co.nz's audience through transactional business models, in select vertical markets.** With investment likely required, it would not be a surprise to see a JV occur in some form down the track. The Commerce Commission ruling has been appealed and a hearing is set for October.

Earnings, Valuation & Recommendation:

- **On a sum-of-the-parts basis, we value FXJ at \$1.27 per share.** The current share price appears well under-pinned & fails to reflect any additional wins, as FXJ transitions to a new world organization. With the launch of the Domain roadshow, coupled with the proposed changes to Australian media laws we would expect the stock to edge up leading into FXJ's AGM on Thursday 2nd November.
- **We maintain our recommendation on FXJ as BUY.** The option value of one, two or three successes in certain verticals/investments is likely to provide material upside to the current share price, in time. Property vertical is the 'jewel in the Crown' today.